

by RUS KINZINGER

DITCH THE GUESSWORK: **KNOW** **WHEN TO ADD SALES STAFF**

Quick—for every dollar of gross revenue, what percentage do you pay in wages? This number should be tip of the tongue for every thrift retailer.

In their informative book, *Start and Run a Retail Business*, James E. Dion and Ted Topping suggest that if sales associates are actively engaged in *selling* a sixteen percent (16%) wages to grow revenue relationship is acceptable. If associates are *not* actively selling goods to shoppers, eight percent (8%) is more appropriate.

In a finding specific to nonprofit thrifts, the National Association of Retail Thrifts (NARTS) reported that whereas store ratios varied by dollar volume, square footage, and years in operation, the average percent of gross sales spent on wages ranged from forty-three percent (43%) for stores with less than \$200,000 in annual sales to about thirty-two percent (32%) for those with sales greater than \$400,000 annually. (Operating Survey, 2005).

Whatever *your* wages to gross revenues percentage is, however, it is important that you know this key retail indicator and understand its application. Let's consider an application. Assume you want to know whether it makes economic sense to add another staff person to your sales floor—\$18,000 wages. You know already that wages are thirty-five percent (35%) of current gross revenues and expect this sales associate to function in the same way as

your others. With those assumptions, here's how you get your answer.

- $\$18,000 = 0.35 X$
- $X = \$18,000/0.35$
- $X = \$51,429$ (Expected Gross Sales Impact)

Don't forget that *net* sales must ultimately be positive to achieve business sustainability—so you shouldn't stop the process until you determine net impact. (Our Talon Top Tier groups will explore acceptable wages to net sales ratios.) Nonetheless, you can use this process with any wage or ratio.

Finally, let me add that being continuously aware of your wages to gross revenue percentage will keep an important reality squarely in front of you, i.e. that the purpose of a sales associate is to produce revenue. Do your sales associates *know* that? Are they actively engaged in selling on the floor? Are you training them to be more effective at doing so? Do you track and post individual performances, daily? A shrinking wages to gross revenue number means more dollars are available for developing your store. If yours is a business operated by a nonprofit, it also means more dollars that can be redirected to cash-starved programs.